

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

IN RE:  IES UTILITIES INC.	DOCKET NO. WRU-98-39-151
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**ORDER GRANTING, IN PART, REQUEST FOR WAIVER**

(Issued December 30, 1999)

On November 18, 1999, IES Utilities Inc. (IES) filed with the Utilities Board (Board) a request for a two-year extension of a waiver of two of the electric flexible rate rules, IOWA ADMIN. CODE 199-20.14(3)"b" and "c" (1998), granted by the Board in this docket on December 23, 1998. The waiver granted in the December 23, 1998, order was for one year only and expires on December 31, 1999. The flexible rate rules at issue provide that the ceiling for all discounted rates shall be the approved rate on file for the customer's rate class and that the floor for the discount rate shall be equal to the energy costs and customer costs of serving a specific customer. The Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed an objection to the waiver request extension on November 22, 1999.

Prior to granting the initial waiver request, a hearing was held. This contract is unique because it bases the price of electricity on a portion of the operating costs of a customer, Keokuk Ferro-Sil, Inc. (Ferro-Sil), not on IES's cost of service to provide electricity. The price paid by Ferro-Sil for electricity will vary depending on its

operating costs and could be above or below both the price ceiling and price floor of the flexible rate rules.

In the initial waiver proceeding in 1998, Consumer Advocate did not object to the waiver request with respect to the contract price ceiling, but did object to the waiver with respect to the price floor. Consumer Advocate was concerned IES would seek to recover any rate discounts to Ferro-Sil from other customers in a future rate proceeding. Consumer Advocate's objection to the extension is the same as its objection to the initial waiver. Consumer Advocate does not request a hearing on the extension but incorporates its prior testimony and evidence from the initial waiver proceeding.

IES agreed at the hearing on the initial request to absorb any discounts below the price floor. However, IES did not agree to absorb discounts between the price floor and its tariffed rate. IES pointed out that pursuant to IOWA ADMIN. CODE 199-20.14(5), such issues are determined in a rate proceeding. The Board stated in its order that recovery of discounts is a rate issue, not to be decided in the waiver proceeding.

Also in the order granting waiver, the Board noted that IES is currently subject to a rate freeze as a consequence of its participation in the rate proceeding. The Board also noted that IES is currently subject to a rate freeze as a consequence of its participation in the rate proceeding.

The rate freeze made it unlikely any discounts associated with the initial contract would be the subject of a rate proceeding, unless Consumer Advocate brought a rate reduction proceeding with 1999 as the test year. If a two-year extension is granted, it is more likely 2001 will be a test year. However, the Board continues to view the recovery of discounts as a rate issue, not an issue to be decided in waiver proceedings.

The Board has other concerns about extending the waiver for a two-year period. While the Board understands this contract is unique because of Ferro-Sil's special circumstances, the Board believes a two-year extension must be justified by the filing of updated testimony and information. Even though Ferro-Sil has no direct competitors in Iowa, a type of contract pricing available to only one customer must be continually re-examined to insure continuation of the waiver is appropriate.

The Board recognizes the Ferro-Sil contract is consistent with the flexible rate rules to the extent that IES has assumed the risk and has agreed not to seek recovery for the discount beyond that which is allowed under the flexible rate rules. In addition, the rules allow a flexible rate to remain in effect for five years. Therefore, the Board will extend the waiver, but only for a one-year period, through December 31, 2000. If IES wants an additional extension, it should file its request and justification in sufficient time to allow the Board to conduct a hearing on the request.

The Board will continue to require IES to file certain information on a quarterly basis so the Board and Consumer Advocate can analyze the contract prices and IES's production costs. IES is to provide its calculations used to determine Ferro-Sil's rates, along with a breakdown of what IES considers to be its production costs, including energy costs and customer costs. Production costs are to be submitted which both include and exclude costs associated with Duane Arnold so a comparison can be made.

**IT IS THEREFORE ORDERED:**

1. The request for waiver filed by IES Utilities Inc. on November 18, 1999, is granted for a one-year period, through December 31, 2000.
2. IES shall continue to file the information identified in this order on a quarterly basis.

**UTILITIES BOARD**

/s/ Allan T. Thoms

/s/ Susan J. Frye